



# Office of the Washington State Auditor

## Pat McCarthy

**Pat McCarthy**

Washington State Auditor

Director of

**Performance Audit**

Chuck Pfeil, CPA

(360) 902-0366

[Chuck.Pfeil@sao.wa.gov](mailto:Chuck.Pfeil@sao.wa.gov)

Principal Performance Auditor

Deborah Stephens

(360) 725-5565

[Deborah.Stephens@sao.wa.gov](mailto:Deborah.Stephens@sao.wa.gov)

Senior Performance Auditor

William Wright

(360) 725-5416

[William.Wright@sao.wa.gov](mailto:William.Wright@sao.wa.gov)

**Office of the Washington  
State Auditor**

P.O. Box 40021

Olympia, WA

98504-0021

[www.sao.wa.gov](http://www.sao.wa.gov)

[@WASateAuditor](https://twitter.com/WASateAuditor)

## **Liquor and Cannabis Board: Optimizing audit resources using risk assessment**

### **Background**

In 2012, Washington voters legalized cannabis for recreational use through ballot Initiative 502 (I-502). As a result, Washington was one of the first two states to develop a legal recreational cannabis market. Since then, six more states and the District of Columbia have legalized recreational cannabis. As additional states enter the emerging legal cannabis market, they will look to initial adopters, such as Washington, for examples of how to structure their regulatory systems.

Our state imposes a 37 percent excise tax on all retail sales of cannabis and cannabis-infused products, such as edibles and oils, which is collected by licensed retailers. The excise tax revenue contributes significantly to multiple state programs and the general fund. The projected general fund contribution for the 2015-17 biennium is nearly \$150 million.

I-502 granted regulatory authority to the Liquor and Cannabis Board (LCB). LCB now administers licenses for cannabis businesses, enforces relevant laws, and creates rules to regulate cannabis products. LCB oversight responsibilities include excise tax collection and audits of cannabis businesses to ensure all transactions have been correctly reported.

The law requires cannabis licensees to track their products and revenue in a “seed-to-sale” database known as the traceability system. The traceability system tracks cannabis through all steps of production, distribution, processing and revenue collection. LCB collects the excise tax on all retail cannabis sales based on inventory and transactions reported in the system. A significant risk to the accuracy of data in the system is inaccurate reporting by licensees.

This audit will use traceability data to determine factors that can help LCB identify high-risk businesses and establish a risk assessment framework to optimize its limited audit resources in this new market. Strategically targeted audits of cannabis businesses will enable LCB to maximize revenue return on audit efforts by increasing excise tax collections.

### **Preliminary scope and objectives**

This audit will seek to identify:

1. What data could help identify high-risk cannabis businesses?
2. How can LCB use data to focus its audit efforts on high-risk businesses?

### **Timing**

We plan to publish the results of this audit in spring 2018.

**March 2017**